

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 COME-00 EB-11 INR-11 LAB-06

NSAE-00 RSC-01 SIL-01 DOTE-00 AID-20 FRB-03 TRSE-00

XMB-07 OPIC-12 SP-03 CIEP-02 OMB-01 NSC-07 SS-20

STR-08 CEA-02 DRC-01 /131 W
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R 220200Z JUL 74

FM AMCONSUL MELBOURNE

TO SECSTATE WASHDC 2261

INFO AMEMBASSY CANBERRA

AMCONSUL SYDNEY

AMCONSUL PERTH BY POUCH

AMCONSUL BRISBANE BY POUCH

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E.O. 11652: N/A

TAGS: EIND, ETRD, ELAB, AS

SUBJECT: INITIAL REACTIONS TO INDUSTRIES ASSISTANCE COMMISSION
RECOMMENDATIONS ON THE AUSTRALIAN AUTOMOTIVE INDUSTRY

REF: (A) CANBERRA 4426; (B) MELBOURNE 1173 DATED
NOVEMBER 4, 1973.

1. SUMMARY: THE THREE MAJOR AUTOMOBILE MANUFACTURES IN AUSTRALIA ARE U.S. COMPANIES: ALL ARE LOCATED IN THE MELBOURNE CONSULAR DISTRICT: TWO IN MELBOURNE, AND ONE IN ADELAIDE. INITIAL REACTIONS FROM THEIR TOP OFFICIALS VARY WITH THE COMPANY BUT THE CONSENSUS IS THAT IF THE IAC REPORT IS IMPLEMENTED IN ITS PRESENT FORM AUTOMOBILE MANUFACTURING WILL BE REPLACED BY IMPORTS AND THE MAJOR BENEFICIARIES WILL BE THE JAPANESE. END SUMMARY.

2. GENERALLY THE AUTOMOTIVE INDUSTRY HAS BEEN SMARTING OVER THE LACK OF GROWTH SINCE 1965 DUE TO THE HEAVY INFLUX OF
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IMPORTS, PARTICULARLY FROM JAPAN. THE PAST EIGHT YEARS HAVE

SEEN A MERE TEN PERCENT INCREASE IN PRODUCTION WHILE IMPORTS HAVE RISEN 160 PERCENT OVER THE SAME PERIOD, EVEN WITH A 35 TO 45 PERCENT IMPORT DUTY. MUCH OF THIS HAS BEEN DUE TO THE RESTRICTIVE LOCAL CONTENT RULE WHICH FORCES THE FOUR PRODUCING COMPANIES TO USE 95 PERCENT LOCALLY MANUFACTURED ITEMS DESPITE MUCH HIGHER COSTS. (THE FOURTH FIRM IS BRITISH LEYLAND CORPORATION, WHICH IS IN DIRE STRAITS NOW AND WOULD PROBABLY GO OUT OF BUSINESS IF THE IAC REPORT IS ADOPTED IN ITS PRESENT FORM). THIS RULE HAS ALSO FORCED THE INDUSTRY AS WELL AS LOCAL SUPPLIERS TO MAKE PLANT AND EQUIPMENT INVESTMENTS THAT ARE VIABLE ONLY UNDER THE STRICT PROTECTION OF THAT PROGRAM: WITH THIS TAKEN AWAY MANY WILL BE FORCED OUT OF BUSINESS.

3. THE JAPANESE HAVE BENEFITED GREATLY, AS WITNESSED BY THEIR RECORD OF IMPORT GROWTH, BECAUSE THEY HAVE HAD NO PLANT INVESTMENT IN AUSTRALIA; NOR LARGE LABOR FORCE HERE TO BE AFFECTED BY THE CONSTANT INDUSTRIAL UNREST CHARACTERISTIC OF THE AUTOMOBILE INDUSTRY; FEW, IF ANY, TAXES PAYABLE TO AUSTRALIAN AUTHORITIES; A LOW FREIGHT RATE DUE TO THE BULK NATURE OF AUSTRALIAN EXPORTS TO JAPAN ON THE RETURN TRIP; AND LOWER COSTS OF PRODUCTION IN JAPAN FOR VARIOUS REASONS INCLUDING STEEL AT \$100 A TON CHEAPER THAN AUTO MANUFACTURES IN AUSTRALIA PAY.

4. IF THE IAC REPORT IS IMPLEMENTED AS DRAFTED THE CHIEF BENEFICIARY WILL CONTINUE TO BE JAPAN, NOT ONLY BECAUSE OF THEIR SPECIALIZING IN SMALLER CARS BUT BECUASE THE FRIEGHT RATE FROM JAPAN TO AUSTRALIA IS APPROXIMATELY \$350 A UNTI AS OPPOSED TO APPROXIMATELY \$1400 A UNIT FROM THE U.S. ALTHOUGH MORE OPTIONS WILL BE OPEN TO NWHOCXU HNZPK (#) PRODUCERS WITH THE DISAPPEARANCE OF THE LOCAL CONTENT RULE, ONLY GENERAL MOTORS-HOLDEN FEELS CONFIDENT IT CAN LIVE JUST AS WELL UNDER THE NEW SET UP. THEIR DIRECTORS FEEL GM-H CAN CONTINUE TO MANUFACTURE HIGH VOLUME ITEMS SUCH AS SIX-CYLINDER ENGINES HERE, BUT CERTAIN PARTS LIKE BODIES AND CHASSIS FOR SPECIFIC MODELS WILL PROBABLY BE IMPORTED OR PERHAPS COMPLETE UNITS MANUFACTURED ELSEWHERE WILL BE BROUGHT INTO THE MARKET AND SOLD UNDER A LOCAL BRAND NAME. LIMITED OFFICIAL USE

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GM-H DID NOT SEEM CONCERNED ABOUT EXCESS PHYSICAL PLANT AND REAL ESTATE: THE ASSUMPTION WAS IT COULD ALWAYS BE USED FOR OTHER UNITS NOW LOCATED ELSWEHRERE.

5. FORD ON THE OTHER HAND FEELS THE IAC REPORT TOLLS THE DEATH OF THE INDUSTRY IN AUSTRALIA; CAN SEE NO FUTUE IN MANUFACTURING ENGINES OR SIMILAR COMPONENTS; FEARS THE LOSS OF TRAINED LABOR AND

ENGINEERING STAFF; AND IS CONCERNED ABOUT THE FATE OF THEIR REAL ESTATE AND PLANT INVESTMENT. FORD LEANS TOWARD IMPORTING FULLY ASSEMBLED UNITS BECAUSE "PICKING AND PACKING" OPERATIONS ARE EXPENSIVE AND ASSEMBLY COSTS IN AUSTRALIA ARE COSTLY. EVEN FREIGHT COSTS ARE RELATIVELY FAVORABLE TO THE COMPANY.

NOTE BY OC/T: MELBOURNE 0838 - (#) AS RECEIVED.

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6. CHRYSLER, WHILE GENERALLY AGREEING WITH FORD, SEEMS CONFIDENT OF BENEFITING BY THE PROPOSED NEW ARRANGEMENT BECAUSE OF ITS STRONG TIES WITH THE JAPANESE CAR INDUSTRY AND THE FACT THAT THEY ARE ALREADY IMPORTERS OF SMALL JAPANESE CARS INTO AUSTRALIA: WHICH NEITHER GM-H NOR FORD PRESENTLY DO. HOWEVER, CHRYSLER SEES NO EXPANSION OF ANY KIND: ONLY SEVERE CUT-BACKS IN MANY AREAS AND A VERY SMALL RETURN ON THEIR PRESENT INVESTMENT.

7. A COMMON THREAD TO ALL THE US FIRMS IS THEIR FEELING THAT THE IAC REPORT HAS UNDERESTIMATED A NUMBER

OF IMPORTANT CONSIDERATIONS (1) THAT THE UPPER END, OR LARGE CAR SEGMENT, WILL SETTLE AT AROUND 30 PERCENT OF THE MARKET RATHER THAN IAC'S PROJECTED 46 PERCENT, WHICH IS TOO NARROW A SCOPE FOR ALL THE MANUFACTURERS INVOLVED TO OPERATE EFFICIENTLY IN; (2) THAT UNEMPLOYMENT WILL BE FAR GREATER THAN PROJECTED; (3) AND THAT IF THE DRASTIC DECREASE IN JUNE SALES CONTINUES THEN THE WHOLE INDUSTRY WILL BE IN TROUBLE UNTIL THE AVAILABILITY OF FINANCING LIMITED OFFICIAL USE

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INCREASES.

8 COMMENT: THERE ARE A NUMBER OF OPPOSING FACTORS AT WORK IN THIS ISSUE, MANY OF THEM WITHIN THE GOVERNMENT ITSELF, WHICH MAKES AN ACCURATE PROGNOSIS DIFFICULT. THE UNIVERSITY THEORETICIANS, MAINLY RESPONSIBLE FOR THE REPORT, WILL BE FOUGHT EVERY INCH OF THE WAY BY THE UNIONS AND THE LABOR POLITICIANS: THE FORMER TO MAINTAIN FULL EMPLOYMENT, THE LATTER TO REMAIN IN POWER. IT IS ALL WELL AND GOOD TO SAY AUTO INDUSTRY WORKERS CAN BE RETRAINED, BUT AS WHAT WHEN SECONDARY INDUSTRY WILL RETRENCH AS AUTO PART SUPPLIERS GO OUT OF BUSINESS. (ACCORDING TO ALL THREE COMPANIES, A FIRM WHICH IS MOST JEOPARDIZED IS BORG WARNER WHOSE AUTOMATIC TRANSMISSION PLANT WOULD PROBABLY BE AMONG THE FIRST TO CLOSE WITH THE ADVENT OF CHEAPER IMPORTS.)

9. ANOTHER FACTOR IS THE EXCHANGE RATE WHICH NOW BENEFITS IMPORTS BUT, WITH ANY KIND OF A DEVALUATION OF THE AUSTRALIAN DOLLAR, COULD DRASTICALLY CHANGE THE BASIC ASSUMPTIONS OF THE IAC REPORT. IN ASSISTING US EXPORTS, SINCE IT APPEARS THAT THE JAPANESE YEN IS LIKELY TO DEPRECIATE FASTER THAN THE US DOLLAR IN ANY FUTURE ACTION.

10. VITAL TO THE SUCCESS OF THE IAC REPORT IS SUPPORT FROM LABOR POLITICIANS IN THE VARIOUS STATES, AND SOUTH AUSTRALIAN PREMIER DON DUNSTAN HAS ALREADY SERVED NOTICE THAT HE INTENDS TO MAINTAIN THE VIABILITY OF HIS STATE'S ECONOMY. AUTOMOTIVE PRODUCTION IS THE SINGLE MOST IMPORTANT INDUSTRY IN THE STATE, WHICH IS ALREADY SUFFERING FROM UNEMPLOYMENT AND TAX LOSSES IN THE WHITE GOODS MANUFACTURING AREA, WITH PRODUCERS IMPORTING IN EVER INCREASING QUANTITY REFRIGERATORS, FREEZERS, WASHING MACHINES, ETC. DUNSTAN IS STILL BURNING OVER HIS EARLIER SET-BACKS DUE TO ACTIONS BY THE FEDERAL GOVERNMENT IN TWO AREAS: AN INCREASED TAX ON BRANDY MANUFACTURE WHICH ALMOST COMPLETE DESTRUCTION OF HIS PET PROJECT, THE PETROCHEMICAL SCHEME AT REDCLIFFS. (SEE RETEL B.

HOWEVER, IT REMAINS TO BE SEEN JUST HOW FAR HE WILL
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GO IN HIS FIGHT TO PROTECT THE STATE'S INTERESTS.

11. IN ESSENCE THE STRUGGLE WILL BE JOINED ON THE
ISSUE OF UNEMPLOYMENT AND SINCE THE UNIONS HAVE SO
STRONG A VOICE IN THE GOVERNMENT IT APPEARS LIKELY
THAT THIS IAC REPORT WILL NOT BE IMPLEMENTED IN ITS
PRESENT FORM. END COMMENT.
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